

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

TRANSFERRING FIRST-CLASS MAIL PARCELS  
TO THE COMPETITIVE PRODUCT LIST

Docket No. MC2015-7

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO CHAIRMAN'S INFORMATION REQUEST NO. 1, QUESTION 3**  
(December 16, 2014)

The Postal Service hereby files its responses to question 3 of Chairman's Information Request No. 1, issued on December 9, 2014. The question is stated verbatim and is followed by the Postal Service's response. The Postal Service believes that by filing this response before the close of business today, that interested parties ought to be able to incorporate its contents into their comments. Accordingly, an extension of the comment deadline in this proceeding should be unnecessary.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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3. The Postal Service contends that the rate for the Priority Mail Retail Small Flat-Rate Box is the natural competitive price cap for retail First-Class Parcels. See Request, Attachment B at 7. The table below compares the prices of First Class Parcels with the price of the Priority Mail Retail Small Flat-Rate Box. Because the price of Priority Mail includes tracking, the table includes the price of retail First-Class Mail Parcels with and without the purchase of tracking.

	First-Class	First-Class	Priority Mail	Potential	Potential	Potential	Potential
	Parcel	Parcel	Small Box	Price	Pct. Price	Price	Pct. Price
	Price w/o	Price with	Retail	Increase	Increase	Increase	Increase
Ounce	Price w/o	Price with	Retail	vs. Price w/o	vs. Price w/o	vs. Price with	vs. Price with
Increment	Tracking	Tracking	Price	Tracking	Tracking	Tracking	Tracking
	(1)	(2)=(1)+1.05	(3)	(4)=(3)-(1)	(5)=(3)/(1)-1	(6)=(3)-(2)	(7)=(3)/(2)-1
1	\$2.32	\$3.37	\$5.80	\$3.48	150%	\$2.43	72%
2	\$2.32	\$3.37	\$5.80	\$3.48	150%	\$2.43	72%
3	\$2.32	\$3.37	\$5.80	\$3.48	150%	\$2.43	72%
4	\$2.50	\$3.55	\$5.80	\$3.30	132%	\$2.25	63%
5	\$2.68	\$3.73	\$5.80	\$3.12	116%	\$2.07	55%
6	\$2.86	\$3.91	\$5.80	\$2.94	103%	\$1.89	48%
7	\$3.04	\$4.09	\$5.80	\$2.76	91%	\$1.71	42%
8	\$3.22	\$4.27	\$5.80	\$2.58	80%	\$1.53	36%
9	\$3.40	\$4.45	\$5.80	\$2.40	71%	\$1.35	30%
10	\$3.58	\$4.63	\$5.80	\$2.22	62%	\$1.17	25%
11	\$3.76	\$4.81	\$5.80	\$2.04	54%	\$0.99	21%
12	\$3.94	\$4.99	\$5.80	\$1.86	47%	\$0.81	16%
13	\$4.12	\$5.17	\$5.80	\$1.68	41%	\$0.63	12%

- a. Are customers who send retail First-Class Mail Parcels without tracking in the same market as customers who send retail First-Class Mail Parcels and also purchase tracking? Please explain whether both sets of customers (those who purchase tracking versus those who do not) are contained in the market share figures shown in the table at page 4 of Attachment B to the Request, and whether they both should be contained in those figures. Please also discuss the alternative products for each set of customers (those who purchase tracking versus those who do not). Please also provide an estimate of the percentage of retail First-Class Mail Parcels mailed with tracking purchased by the mailer.
- b. If the Postal Service increases the prices of retail First-Class Mail Parcels significantly (once moved to First-Class Package Service), does it risk losing business to competitors or to its own Priority Mail product? Please include a discussion of:

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- i. what constitutes a significant price increase percentage-wise; and
  - ii. the relevance of competitors in the 2/3 day air and ground markets and whether they compete on price or service or both, and how the Postal Service compares.
- c. If price increases for retail First-Class Mail Parcels (once moved to First-Class Package Service) close the price gap between retail First-Class Mail Parcels and Priority Mail:
  - i. what will be the potential effect on retail First-Class Mail Parcels (once moved to First-Class Package Service) customers;
  - ii. what will be the potential financial effect on the Postal Service; and
  - iii. what will be the potential effect on the Postal Service's market share?
- d. Under the Postal Service proposal, mailers of retail First-Class Mail Parcels will no longer be protected by the First-Class Mail price cap. Is it the Postal Service's position that competition will protect these mailers, and that the rate they pay should reflect the market rate even if price increases are substantial? Please discuss.
- e. The Postal Service is concerned that commercial mailers currently take advantage of the lower priced market dominant First-Class Retail Parcel product. See Request, Attachment B at 8.
  - i. Are the single-piece and bulk parcel mailers in separate markets? Please discuss.
  - II. Could this problem be avoided by changing the eligibility requirements for the use of the First-Class Retail Parcel product? Please discuss the efficacy of this approach in comparison with transferring the product to the competitive list of products.

**RESPONSE:**

Before addressing each subset of question 3, the Postal Service would like to discuss the price chart presented by the Commission. In short, the Postal Service believes that the price chart should be adjusted in two areas. First, after First-Class Mail Parcels is transferred to the competitive product list, and becomes a retail category of First-Class Package Service, the Postal Service plans to include USPS Tracking at no fee, as it

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does for all other Competitive parcel options.<sup>1</sup> Second, since Priority Mail items, including the small flat-rate box, receive \$50 of insurance coverage at no charge, the price table should address those customers who currently pay (\$2.10) to insure First-Class Mail Parcels separately from those who do not. Based on these two modifications, the Postal Service believes that the Commission's chart should be modified (as shown below) to more accurately reflect the maximum price increases that First-Class Mail Parcels (FCMP) customers could experience if the FCMP prices were raised to match the price for the Priority Mail Small Flat-Rate Box. The modified table shows that the risk of higher prices for customers is more limited than the table provided in the question.

Even with the modifications mentioned above, the Postal Service believes that the chart also makes two unfair assumptions, which overstate the likely price increases that customers would face. First, the chart assumes that the Postal Service has plans to fully close the gap between First-Class Mail Parcels and Priority Mail prices. Simply put, the Postal Service has no interest in damaging its customer relations and potentially driving away business by levying significant and unnecessary price increases on mailers. Rather, as the Postal Service noted on Page 2 of Attachment B to its Request, it only plans to raise First-Class Mail Parcels prices by the amount required by the Private Express Statutes, in conjunction with this transfer. This price increase is necessary to preserve the product's seal against inspection, which the Postal Service believes is a valuable product feature. Second, the chart assumes that the Postal Service does not already plan to increase FCMP prices as part of its next market-

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<sup>1</sup> That change would be presented in a separate pricing case.

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dominant price case. Indeed, given the currently available CPI pricing authority, and the Postal Service's interest in achieving and maintaining cost coverage for the FCMP product (should it remain on the market-dominant product list), it is likely that customers would experience an above average price increase.

	First Class Parcel Price Adjusted For Potential CPI Increase in Ounce Increment	First Class Parcel Price with \$50 of Insurance (2)=(1)+2.10	Priority Mail Small Flat-Rate Box Price (Retail) (3)	Maximum Price Increase (\$) vs. Price w/o Insurance (4)=(3)-(1)	Maximum Price Increase (%) vs. Price w/o Insurance (5)=(4)/(1)	Maximum Price Increase (\$) vs. Price with Insurance (6)=(3)-(2)	Maximum Price Increase (%) vs. Price with Insurance (7)=(6)/(2)
1	\$2.32	\$4.42	\$5.80	\$3.48	150%	\$1.38	31%
2	\$2.32	\$4.42	\$5.80	\$3.48	150%	\$1.38	31%
3	\$2.32	\$4.42	\$5.80	\$3.48	150%	\$1.38	31%
4	\$2.50	\$4.60	\$5.80	\$3.30	132%	\$1.20	26%
5	\$2.68	\$4.78	\$5.80	\$3.12	116%	\$1.02	21%
6	\$2.86	\$4.96	\$5.80	\$2.94	103%	\$0.84	17%
7	\$3.04	\$5.14	\$5.80	\$2.76	91%	\$0.66	13%
8	\$3.22	\$5.32	\$5.80	\$2.58	80%	\$0.48	9%
9	\$3.40	\$5.50	\$5.80	\$2.40	71%	\$0.30	5%
10	\$3.58	\$5.68	\$5.80	\$2.22	62%	\$0.12	2%
11	\$3.76	\$5.86	\$5.80	\$2.04	54%	-\$0.06	-1%
12	\$3.94	\$6.04	\$5.80	\$1.86	47%	-\$0.24	-4%
13	\$4.12	\$6.22	\$5.80	\$1.68	41%	-\$0.42	-7%

- a. Since the Postal Service plans to include no-fee USPS tracking with the First-Class Package Service Retail category, whether a customer purchased USPS tracking or not is immaterial to the definition of the market. With respect to insurance, both sets of customers (those purchasing insurance and those who did not) are included in the table at page 4 of Attachment B to the Request. One analogy would be pizza without toppings and pizza with toppings: most observers would likely consider the two as occupying a single market even though a consumer may choose to add a topping to the underlying product. Here, the Postal Service believes that, despite a customer's choice to add an extra service to First-Class Mail Parcels, they continue to occupy the same market as those customers who purchase First-Class Mail

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Parcels without any extra services. For both sets of customers, the alternative products are the same. These include Ground, 2-day air, and 3-day air offerings by UPS and FedEx, through their retail outlets. In Fiscal Year 2014, approximately one percent of First-Class Mail Parcel customers also purchased insurance.

- b. Since postal products rarely have a cross-price elasticity of zero, there is generally always a risk of losing volume to a potential substitute. In light of this axiom, the Postal Service will have every incentive to keep the price of First-Class Mail Parcels – even at 13 ounces – below the price of the Priority Mail Small Flat-Rate Box. Moreover, given the value added features incorporated into many of its competitors' products, including \$100 of insurance and money-back delivery guarantees, even if the Postal Service came close to aligning prices with the Small Flat-Rate Box price, it would risk losing volume to the competition.
  - i. The Postal Service believes that a price adjustment could be considered “significant” if the percentage increase were large enough to force consumers to reevaluate the value of purchasing the product in question. This, of course, depends largely on the perception of individual shippers (who all have different needs). The Postal Service therefore cannot provide a particular percentage amount.
  - ii. Private-sector competitors are relevant: 1) because they compete in the same market and could potentially steal business (and contribution) away from the Postal Service, and 2) because Section 3642 of Title 39 requires

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that the Commission consider the availability and nature of private enterprises engaged in the delivery of similar products. To be sure, competition in the parcel market is robust and includes both price and non-price factors.

For example, when shipping an under 1 pound parcel, customers have a variety of options, including UPS' Ground service and FedEx's One-Rate service. With respect to UPS' Ground Service, a customer can ship an under one-pound item for as little as \$6.24.<sup>2</sup> This service also comes with a money-back guarantee if UPS fails to meet its delivery target, and \$100 of coverage for loss or damage.<sup>3</sup> Similarly, a customer can ship an under one-pound item for as little as \$7.50 (using a FedEx Pak) or \$8.50 (in a small box) with FedEx's One-Rate service.<sup>4</sup> Like UPS, FedEx's One-Rate service comes with a money-back guarantee if the projected delivery date is missed, and \$100 of insurance for loss or damage.<sup>5</sup>

Given the close proximity of these prices to the price of a Priority Mail Small Flat-Rate Box – and the value added features offered by competitors – the Postal Service would likely lose business to competitors if it were to close the gap between the prices for First-Class Mail Parcels and the price of a Small Flat-Rate Box. While the Postal Service is unable to specifically quantify the amount of business it would lose, it is confident

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<sup>2</sup> See [http://www.ups.com/media/en/standard\\_list\\_rates.pdf](http://www.ups.com/media/en/standard_list_rates.pdf)

<sup>3</sup> See <http://www.ups.com/content/us/en/shipping/time/service/ground.html>

<sup>4</sup> See <https://www.fedex.com/us/onerate/>

<sup>5</sup> *Id.*

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that loss would be substantial enough to dissuade it from ever attempting to equalize the prices between these two products.

- c. This question improperly assumes that the Postal Service will, or is likely to, increase the prices for First-Class Package Service Retail to match that of a Priority Mail Small Flat-Rate Box. As the Postal Service has repeatedly stated in this response, it has no intention of completely closing the price gap between these two products. Indeed, as mentioned in response to Question 3(b), the Postal Service has every incentive to keep First-Class Package Service Retail prices below the Small-Flat Rate Box price.

Moreover, to comply with the requirements of Section 3642, the Postal Service does not have to actually raise rates significantly. Rather, the Postal Service need only show that if it were to raise prices significantly, that it would likely lose a substantial amount of business to competitors offering similar products. As it argued in its Request, and in response to part b of this question, the Postal Service believes that pushing FCMP prices too close to that of a Small Priority Mail Flat-Rate Box would result in a substantial loss of volume to competition.

- i. Due to the Postal Service's desire to maintain the seal against inspection, and the requirements of the Private Express Statutes (See 39 U.S.C. § 601(b)(1)), customers would experience a price increase once the transfer took place. However, the Postal Service does not believe that the price increase necessary to maintain the seal against inspection would dissuade many of its



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current customers from continuing to use the First-Class Package Service Retail product, as prices would remain well below prices for alternatives.

- ii. The Postal Service would expect contribution to rise as a result of the planned price increase to maintain the seal against inspection.
  - iii. As the price increase necessary to maintain the seal against inspection would not significantly alter current prices, the Postal Service does not expect its market share to materially change.
- d. Yes, as discussed above, the Postal Service believes that competition will protect the users of First-Class Mail Parcels even after it is transferred to the competitive product list. Indeed, Section 3642 itself makes the same assumption by permitting the Commission to classify a product as “competitive” if the Postal Service cannot, without risk of losing a significant level of business, set prices significantly above costs, raise prices significantly, or decrease output. See 39 U.S.C. § 3642(b)(1).
- e. (i) Yes, single-piece and bulk mailers do occupy separate markets. However, there are instances, such as eBay sellers who mail single-piece items daily, where the distinctions between single-piece and bulk mailers become blurred.
- (ii) Perhaps, but this “problem” has nothing to do with the fundamental issue being addressed in this docket: whether First-Class Mail Parcels meets the statutory criteria laid out in Section 3642, of Title 39. As the Postal Service has repeatedly

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stated above, and in its Request, it believes that it has more than satisfied the statutory requirements of section 3642.